PRINCE EDWARD ISLAND

Budget Address

Presented by
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Minister of Finance, Energy and Municipal Affairs
and Chair of Treasury Board

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of Prince Edward Island

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The full texts of the Budget Address, Estimates of Revenue and Expenditure and supporting schedules for 2012-2013 and previous years are available on the Province of Prince Edward Island's website:

http://www.gov.pe.ca/budget

PRINCE EDWARD ISLAND
2012 BUDGET

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THE BUDGET ADDRESS

Introduction

Madame Speaker, it is a great honour to table our Budget Plan for 2012-2013.

Over the past several years, the entire world has been forced to cope with economic and fiscal pressures.

In response to the global downturn, virtually every jurisdiction in North America undertook unprecedented levels of public investment.

Every jurisdiction is unique, and every jurisdiction had various degrees of success in combatting the recession.

Nationally, we have done relatively well. Our abundance of natural resources, a well-educated population and well-designed financial systems protected Canada from many of the shocks experienced elsewhere in the world.

Here on the Island, our economy avoided any retraction – and in fact, grew at a modest pace throughout the downturn.

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In part, this resilience was due to the stimulus measures taken by both the Provincial and Federal Governments.

Equally important, Islanders shouldered the burden of the recession – and maintained a high level of economic activity and investment.

Now, there are signs of gradual recovery – both here and around the world. Therefore, it is essential for governments everywhere to protect the limited gains made during the recession – and ensure that an economic revival is not imperilled.

Today's Budget lays out measures to achieve exactly that goal. While the Budget Plan addresses the current year's situation, it also sets a clear direction for Government through to 2015.

In keeping with the Speech from the Throne, this three-year plan will follow these fundamental principles:

- Government will foster and develop private sector growth and increases in employment opportunities for Islanders;
- Educational focus will continue to shift toward a greater emphasis on student achievement;
- The modernization of the health care system with a focus on patient needs and sustainability will continue;
- Fiscal balance will be restored by 2015.

Madame Speaker, this plan gives full expression to each of these goals.

Ultimately, our intention is to achieve a greater degree of economic security for Islanders – and an assurance to future generations that their legacy has been protected.

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Madame Speaker, every Member of this House should be proud of the achievements gained since 2007.

We have built an early childhood education system, and introduced full-day kindergarten into our schools.

We have encouraged hundreds of young Islanders to pursue higher education – through tangible measures like the George Coles Bursary program.

We are now fortunate to have a record number of doctors practicing in our Province – and our manor replacement program has assured comfort and dignity for new generations of seniors.

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Our next task is the protection of these gains, and many others. The Budget Plan I am announcing today will fulfill this task.

The Economy

The forces of history and geography mean that Prince Edward Island is more reliant on public sector spending than most other jurisdictions.

As a share of our entire economy, public sector spending represents about 40 per cent. Nationally, the average is about 25 per cent.

Therefore, given the relatively large role of the public sector in our economy, a well-considered balance must be found in pursuit of government restraint and realignment.

However, there is another reality that must form the foundation of our Plan. The engine of future economic growth must lie within the realm of the private sector.

Fortunately, there are positive indicators which suggest the Island's private sector is capable of meeting this challenge. In 2011:

- Prince Edward Island had the fastest population growth in the country;

- Total employment expanded by two per cent – and we now have 72,000 jobs;
- Full-time employment rose by 2,400;
- Total labour income increased by 4.1 per cent – partly due to the increase in minimum wage, which is now $10 per hour;
- Farm cash receipts increased by 17.5 per cent, to a new record of more than $475 Million;
- Surging capital expenditures exceeded $1 Billion, and the number of housing starts grew by 24 per cent;
- Retail sales increased by 6.3 per cent – the highest rate of growth in Atlantic Canada.

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"Farm cash receipts increased by 17.5 per cent, to a new record of more than $475 Million;"

While these indicators are a source of confidence and optimism, they are tempered by other realities:

- Our manufacturing sector has fallen by 16 per cent since 2008 – and there is an understanding that returning to pre-recession levels will take some time to achieve;
- The tourism sector continues to feel the effects of the recession – as many people held back on discretionary spending;
- After growth of 2.6 per cent in 2010, the Conference Board of Canada estimates the provincial economy expanded by 1.5 per cent in 2011 – and forecasts growth of 1.4 per cent this year.

Fiscal Pressures

As a result of a series of expenditure increases, the deficit for 2011-2012 is now projected at $78.6 Million.

This is higher than the original estimate of $42 Million – and is largely attributable to the following factors:

1) As a result of the poor performance of equity investments over the past four years, triggered by global concerns around the debt crisis, our employee benefit costs increased by $15.6 Million over budget.

2) Health care expenditures were $3.1 Million over budget, primarily as a result of increases in hospital and drug costs.

3) Rising costs of disability support and social assistance programs exceeded budget by $3.3 Million. Support for children in care and persons with complex care requirements rose by $3.1 Million.

4) Agriculture costs are up by $5.3 Million, primarily as a result of support to the Atlantic Beef Products Inc. and increased demand for the Production Insurance Program. With respect to the beef plant, in spite of concerted efforts on the part of management and a highly-committed Board of Directors, funding for the operating losses this past year grew to $3.2 Million.

5) Provincial source revenues from liquor sales, golf and other fees were down $5.5 Million.

Madame Speaker, these financial pressures highlight the challenges faced by our Government. Similar issues are being experienced by governments across Canada, reflecting the impact of global economic pressures. We must act decisively and swiftly to ensure that future generations are not burdened with the costs of increased debt resulting from these pressures.

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In His 2012 Federal Budget Address, the Honourable Jim Flaherty said, "By making choices now, the Government is taking the necessary steps to reinforce the fundamental strength and promise of the Canadian economy in order to sustain economic growth, create the high-quality jobs of tomorrow, preserve social programs and sound public finances, and deliver continued prosperity for generations to come."

We agree.

To better understand what these pressures are, we will now discuss in greater detail the forces and factors giving rise to our current fiscal situation.

Madame Speaker, for the past number of months, senior officials in literally every line department, agency, board and Crown corporation, have worked diligently to develop a three-year fiscal plan, management plans, and policy options to support our goals. I thank our professional public service for their good counsel, dedication and support. In particular, I wish to express our deepest gratitude to the late Rory Beck. His knowledge, compassion, dedication and leadership were invaluable in developing the three-year plan which I present to you today. His untimely passing is an enormous loss to his family, to the great many friends and colleagues whose lives he touched for the better, and to our Province.

" In particular, I wish to express our deepest gratitude to the late Rory Beck. His knowledge, compassion, dedication and leadership were invaluable in developing the three-year plan which I present to you today."

I also wish to acknowledge the insights and support of my Cabinet colleagues and members of our Caucus to whom the public responsibility for the measures being taken will rest.

And, last but by no means least, I pay tribute to our Premier, who time and again places an emphasis on doing what is right over doing what is easy.

Madame Speaker, the most enjoyable aspect of preparing this Budget was chairing Pre-Budget Roundtable meetings in each of O'Leary, Montague, Summerside and Charlottetown. I met with more than 75 highly-engaged individuals who collectively represent tens of thousands of Islanders in our business community, primary industries, labour unions, municipalities, and service groups among others. Many Islanders also accepted the invitation to use our website to provide even more input. In all we have 155 suggestions and the strongest recurring themes were that government should:

- definitely take steps to reduce the deficit – it is too high;
- strike a balance between increasing revenues and reducing program spending;
- look for better efficiencies inside department operations, eliminating waste and duplication; and
- reduce red tape and various competitive disadvantages that the private sector faces, allowing the economy to grow further.

Madame Speaker, asking for and receiving ideas is only part of the equation. It is even more important that we demonstrate that Government is listening and acting on the best suggestions in a timely and meaningful way. A number of the suggestions we received will be implemented – while others will be examined further in days ahead. A list of the suggestions we received is posted on our website.

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Madame Speaker, the citizen engagement we have achieved from these steps in the budgetary development process is extremely beneficial. I want to take this opportunity to thank those who submitted ideas and ask that they continue to send me their ideas and feedback all year round.

As well, I wish to pay tribute to our public sector unions. I very much appreciate their constructive advice and ideas on how to provide better, more efficient service to Islanders.

Moving forward, Government is faced with three major fiscal pressures that, if left unaddressed, would increase the Province's deficit to $150 Million or more, into the foreseeable future.

The first of these is the changing global economy.

Government's pension plans rely heavily on global equity markets to address and meet its obligations to public servants – both current and retired. Since 2007, our public sector pension plans, like all others, have been significantly impacted by declines in the equity markets. To put this in perspective, in 2006-2007, prior to the recession, Government contributed $8 Million a year toward pensions. In 2011-2012, this will increase to $40.1 Million – an increase of $32.1 Million or 500 per cent.

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The global economy also impacts corporate tax revenue. In 2006-2007, Government collected $43.3 Million in corporate revenue and this fell to less than $30 Million in 2008-2009. We are encouraged that trends point to growth in this regard; however, structurally this has resulted in a very real and direct pressure on Government's ability to deliver programs in a fiscally-balanced way.

The second major pressure is the rising cost of health care. In 2007-2008, comparable health care expenditures stood at $425 Million. Since then, these costs have grown 7 per cent annually. In 2011-2012 total expenditures are forecast to be $556 Million.

Our Government has taken a number of measures to invest in the health care system, while at the same time transforming the system in order that it may become more sustainable.

We will continue on this path – but status quo growth of 7 per cent per year in health care spending is simply not an option. The more we spend on health, the less we are able to address the other needs of Islanders. This fiscal pressure must and will be addressed.

Notre gouvernement a pris un certain nombre de mesures afin d'investir dans le système de soins de santé, tout en le transformant afin qu'il puisse devenir plus viable.

Nous poursuivrons sur cette lancée — mais la croissance du statu quo de 7 pour cent par année pour les dépenses en soins de santé n'est simplement pas envisageable. Plus nous dépensons pour la santé, moins nous pouvons répondre aux autres besoins des Insulaires. Cette pression financière doit être et sera abordée.

The third major pressure concerns the fiscal capacity of our Province. Government's revenues are derived from two basic sources: local Provincial sources and Federal transfers. Federal revenues are an important part of all provincial and territorial budgets, and especially so in Prince Edward Island.

Over the years, the Federal Government has made significant contributions to the quality of life on Prince Edward Island. Recently, as the Federal Government moves to deal with its own fiscal issues, there has been much debate and discussion on whether Prince Edward Island is being treated fairly.

Madame Speaker, Federal sources accounted for 41.3 per cent of our forecast revenues in 2011-2012. In 2012-2013, major transfers including Equalization, Health and Social Transfers will rise, but total Federal revenues will decline.

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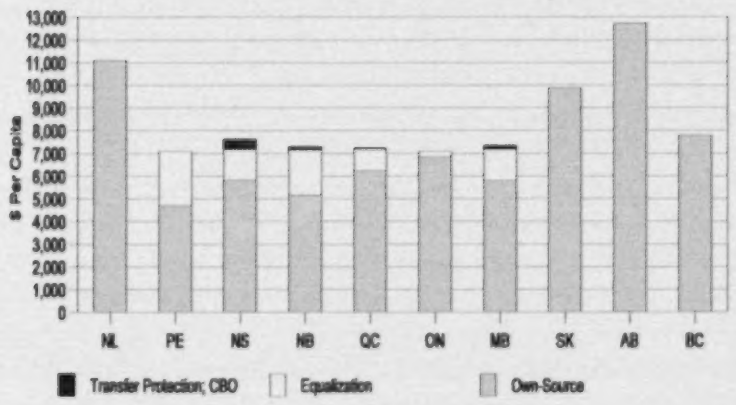
For the coming year, Equalization revenue at $337 Million is Prince Edward Island's single largest source of revenue, accounting for almost one-quarter of our total revenues. This funding is meant to fulfill the Federal Government's constitutional obligation enshrined in subsection 36(2) of the *Constitution Act 1982*:

> *"Parliament and the Government of Canada are committed to the principle of making equalization payments to ensure that Provincial Governments have sufficient revenues to provide reasonably comparable levels of public services at reasonably comparable levels of taxation."*

Currently, Madame Speaker, we believe that some decisions taken by the Federal Government are causing the program to fall short of its constitutional obligation.

Given our limited size, lack of natural resources, and relatively small corporate base, Madame Speaker, Prince Edward Island has the lowest fiscal capacity of any province in the country – even after the equalization program is factored in.

Exhibit 1 - Provincial Fiscal Capacity After Equalization 2012/2013



Madame Speaker, in December of 2011 the Federal Government informed Provinces and Territories that the Canada Health and Social Transfers would be renewed for a further ten years. The combined impact of changing the allocation formulas and tying the growth rate of the Canada Health Transfer to the economy will reduce transfers to Prince Edward Island by an estimated $145 Million between now and 2023-2024.

As a Government, it is our duty to advocate for and represent the interests of Islanders in all federal-provincial matters, particularly those involving Federal transfers. Madame Speaker, on several occasions I have expressed my concern to the Federal Minister that Prince Edward Island is more severely affected by restraints on the Equalization program than any other province. As well, I have highlighted the need and justification for the continuation of the equal per jurisdiction base transfer amount as an element of equalization for 2014.

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I intend to continue to press these issues during the renewal of the Equalization program with the Federal Government. As we move toward these critically-important discussions of the Equalization Program, we call on all members of this elected Legislative Assembly to stand firmly united in ensuring the interests of Islanders are fully-protected.

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Expenditure Measures

Madame Speaker, in our first mandate, public sector spending increased strongly, as we worked to remedy the neglect of the previous decade, and confronted the challenges of recession through increased stimulus spending. Overall, expenditures grew by 4.2 per cent annually. Our largest annual increases were in health, which grew by 7 per cent, and education, which grew at 6 per cent. These levels are not sustainable and require structural changes.

Going forward, our strategy is to hold the growth in expenditures

to a lower level than the growth in revenues. As our revenue growth will be very low in the coming year, and modest over the next several years, this means that expenditure reduction measures are required. Government-wide, we will hold our growth in expenditures to 1.0 per cent in the coming year.

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To attain this level, while preserving our key priorities, expenditure growth will vary by sector:

- The health care system will receive a funding increase of 4.1 per cent this year, and will be capped at growth of 3.5 per cent in subsequent years. While this level is higher than in several other jurisdictions, it represents a significant drop from the levels of the past several years, and will be challenging to attain given the many needs and cost pressures facing the system.

- Education expenditures will increase by 1.8 per cent this year with no further increases in years two and three. Through declining enrolment and internal efficiencies, this will enable us to maintain a pupil-teacher ratio, which ranks among the best in Canada.

- Most other departments of Government will be reduced between three and five per cent this year. Over the next three years, departments other than Health PEI will be expected to absorb new expenditure pressures from within existing budgetary allotments.

Over the past number of months, a comprehensive and orderly approach has been taken to ensure that we can meet these targets. Through this work, we have developed, initiated, and announced a number of expenditure measures which we believe will help reduce our deficit while maintaining essential services to Islanders.

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Those measures were guided by some key principles:

- First, our Government must begin by maximizing the efficiency and cost-effectiveness of its operations and services – finding all possible savings from within.

- Second, where reductions are required, they should be designed and delivered in such a way as to maintain the services most needed by Islanders, with continued compassion for the vulnerable in our society.

- And finally, we must retain some flexibility to invest in critically-important priorities and maintain some capacity to respond to new and changing needs.

Several internal measures have already been taken.

First, we have significantly restructured the corporate or so-called 'back office' functions of Government services to streamline common functions:

- We have centralized within the Treasury Board Secretariat all financial, accounting and information technology services across Government.

- As well, we have consolidated all communications personnel, functions, and activities within Communications PEI; including Queen's Printer and Island Information Services.

- And finally, we have consolidated all human resource functions into the Public Service Commission.

Taken together, these restructuring measures in our internal systems will result in an annual saving of $1.8 Million by improving efficiencies in these functions.

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Second, our pension plans represent a major obligation of Government, and as I have noted, their costs are rising rapidly. All pension plans, here and in other jurisdictions, rely significantly on investment returns on fund assets. With world equity markets remaining soft over the past year, and bond yields at historic lows, investment returns have been inadequate.

For several of our pension plans, Government is obligated to not only match employee contributions, but also make up funding shortfalls. Since the mid-1990s, special payments totalling almost $300 Million have been made to cover such shortfalls, and a minimum further payment of $240 Million is required.

It is clear that a review of our pension plans is needed to ensure they are sustainable and secure for Government's current, former and future employees – and to better balance the benefits provided by the plans with the contributions provided to those plans. Accordingly, our Government will immediately initiate consultations with stakeholders to engage them in the work of placing our pension plans on a sound and sustainable footing.

Third, staffing represents the largest single category of our Government's expenditures. Significant growth has taken place in public sector staffing over the past five years. To ensure that our human resources are deployed where most needed, all departments have undertaken a review of their staffing over the past several months. Through this exercise, the public sector will be reduced by 300 positions over the next three years, with two-thirds of those reductions occurring in the current year. The vast majority of these reductions will be found through attrition.

Going forward, vacant positions in our workforce will be reviewed as they occur and programs will be evaluated to continuously focus our human resources in areas of priority, with a view to reducing a further 50 positions annually in the second and third years of our plan.

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Fourth, our public infrastructure – schools, hospitals, manors, public buildings and public lands – have a value of $1.65 Billion. To maintain and develop this infrastructure in the most effective and efficient way, a central asset management strategy will be developed, streamlining the maintenance and operation of owned and leased buildings and other capital assets of Government.

Fifth, Government departments receive funding for discretionary professional service contracts, office equipment, materials, administrative supplies, and travel (PEMAT). This Budget reduces those accounts by 10 per cent on non-committed expenditures, resulting in an annualized saving of $4.5 Million. To assist departments in dealing with those reductions, our Government will continue to improve group purchasing opportunities within our Province, and in cooperation with other provinces, to ensure that goods and services are acquired as economically as possible.

To achieve internal efficiencies and savings, several departments are taking further specific measures.

Sixth, the Department of Transportation and Infrastructure Renewal is initiating a number of operational changes – including a restructuring of the summer highway maintenance program, reduced snowplowing of seasonal roads, expansion of biomass heating in public facilities, reconfiguration of the Capital Projects Division from three counties to two regions, and modernization of security at Government garages. Taken together, these measures will result in savings of $2.6 Million per year.

Seventh, Government will move to a single English School Board, and realign educational leadership resources within Boards and the Department of Education and Early Childhood Development. This action will save taxpayers $1 Million on an annualized basis.

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Eighth, Members of the Legislative Assembly will freeze their salaries for a third year – and take a leadership position in terms of fiscal restraint.

Other major expenditure measures include the following:

During our first mandate, grants and contributions increased by $156 Million, or a growth rate of 6.7 per cent a year. As a general principle, we looked to reduce grants and contributions in the range of three to five per cent – but at the same time, we were mindful of the varying capacity and diverse roles of our community partners. Individual departments carefully reviewed their programs, and collectively identified $11.4 Million in savings, including a $1.1 Million reduction in grants to municipalities, and a 3 per cent reduction in core operating grants to our post-secondary institutions and many non-governmental organizations.

We recognize the pressures that this will place on our partners, but we believe that all must share in the task of restoring the fiscal health of the Province. As well, we note that the adjusted grant and contribution base remains significantly above the levels we found when we came to Office in 2007.

Second, while the demographics of an aging population play a key role in driving health care costs sharply higher, the reverse holds for our public education system – which has experienced declines in student population over the past number of years.

Despite these declines, given the priority we placed on education, we increased our total number of educators from 1,493 to 1,670 during our first mandate. As a result of this concerted effort, Prince Edward Island now has a student-teacher ratio among the best in the country. Last Fall, we committed to Islanders that we would maintain this leadership position. Over the next two years, we will hold the student-teacher ratio at its current level.

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Third, Madame Speaker, Prince Edward Island has a unique and special standing as a world-class golfing destination. The Province, through successive administrations over the past thirty years, has been instrumental in the development of this sector. However, global economic conditions have contributed to declining use of our provincial golf courses and rising losses as a result – notably at the Dundarave Golf Course built in the late 1990s.

In 2007-2008, Government wrote off the remaining $11 Million of golf course debt, largely associated with the Dundarave initiative. In spite of this, losses at our provincial courses continue to mount, reaching $1.0 Million in the past fiscal year.

For the upcoming year, the Department of Tourism and Culture has initiated a series of actions, including the closure of the 'Divine 9,' and a reduced operating season for Dundarave, in order to curtail these losses. More importantly, Madame Speaker, in the coming year, the Department will initiate an open and transparent process to engage the private sector to determine their interest in operating these courses. Details of this initiative will be outlined in the near future by the Minister of Tourism and Culture.

Fourth, our agricultural industry, which holds great promise in many sectors, has also been affected by forces of economic change. With respect to our beef industry, in 2005 the previous administration, in partnership with local producers, established a new beef plant in Albany. This plant was designed to process 500 head of cattle per week.

From the beginning, the Atlantic Beef Products Inc. plant incurred significant operating losses. In 2007, our Government, under the leadership of our Premier, was able to successfully negotiate a multi-million dollar investment in the plant, with the generous support of the Federal Government and the Provinces of Nova Scotia and New Brunswick. In spite of this support package, and

in spite of the direction of a highly-skilled Board comprised of knowledgeable, capable business leaders, losses at the plant continue, and production levels continue to fall.

Since the plant opened in 2005, the Province has invested more than $40 Million in both capital and operating subsidies. While it was hoped that this plant could get to breakeven status, there is little likelihood that this will be achieved in the foreseeable future. In this past year alone, the Province has funded losses of $3.2 Million.

Our Government is prepared to continue to support the plant, and by extension, Island beef producers. However, that support is not unlimited. Therefore, Madame Speaker, we will cap our assistance at $1.5 Million per year. In the near future, our Minister of Agriculture and Forestry will meet with the Board and management of Atlantic Beef Products Inc., the Atlantic Canada Opportunities Agency, our Provincial counterparts, and most importantly, local industry leaders, to determine the best path forward within this policy direction.

Finally, Madame Speaker, the P.E.I. Liquor Control Commission will expand its operational model to include Agency stores, similar to those in the other Atlantic Provinces. This will have the added benefit of improving consumer convenience across the Island.

Priority Investments

I now turn to this Budget's new investments in our areas of priority.

Jobs and Growth

Madame Speaker, the private sector must be the engine of growth in our economy and employment in the coming years. Government also has a vital role to play, however, in creating the

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conditions to enable and encourage growth – including a skilled labour force, risk sharing, export development, and access to capital. Our strategy for jobs and growth includes a number of targeted measures.

Post-secondary education has been a priority of our Government throughout our time in Office, and we will continue to invest in this area of critical importance to our youth and our future. Madame Speaker, over the past five years, we have invested over $400 Million in post-secondary education. In that same period, university enrollment by Islanders both at home and in other provinces has grown strongly, while enrollment dropped at many other post-secondary institutions elsewhere in the region.

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In part, this growth is fuelled by greater availability and accessibility of post-secondary learning across the Island. In support of this, our Government will provide further funding of $700,000 to the University of Prince Edward Island to fund the new School of Nursing building, and funding of over $1 Million to Holland College to finance the Centre for Applied Science and Technology in Charlottetown, the Waterfront campus in Summerside, and the West Prince campus in Alberton.

In addition, our Government has fulfilled our commitment of last Fall to Island students, and has established the $2,000 George Coles Graduate Scholarship – provided to all Island students graduating with their first undergraduate degree in Prince Edward Island this Spring. This funding recognizes their hard work and achievement, and provides needed support as they move forward into a career or further studies. In addition, we have improved the existing George Coles Bursary, and moved to provide interest-free student loans. Taken together, these measures represent a further investment of $870,000 in Island students.

Additionally, our Government is introducing a new Graduate Mentorship Program to provide graduates with work experience in the private sector, and link knowledge and career assistance to

enable a successful transition to the workforce. We will also invest $500,000 in a new workplace training program for direct support to the private sector and associations that provide specific skills to enhance company growth.

Finally, in partnership with post-secondary institutions, we will establish a task force to ensure that Islanders are receiving the skills and knowledge to strengthen the Island's labour force and improve our competitiveness. In addition, this group will examine ways to attract and retain students from across Canada and internationally, so that our institutions can remain sustainable and build Prince Edward Island into a post-secondary destination. Further, Immigration PEI will invest $250,000 to partner with the private sector and post-secondary institutions to recruit students.

Exports are vital to growth in jobs and wealth in Prince Edward Island. To maximize the impact of Government's supports in this area, a new Export Channel Division will be established within Innovation PEI – creating efficiencies and synergy in transport, logistics, marketing and sales. The Division will work with stakeholders and private sector partners to enhance export opportunities, with particular emphasis on agri-food, seafood, strategic sectors and small to medium-sized enterprises. This year, $300,000 will be invested in expanding trade and export opportunities.

As well, our Government will continue to support the PEI Culinary Alliance in its work to better promote Island food products, and to establish Prince Edward Island as a culinary destination.

Madame Speaker, with farm cash receipts at an all-time high, the agriculture industry is well-positioned to be a key driver of economic growth and job creation into the future. The timing has never been better to be more strategic with agriculture investment, to ensure the sector continues to be a strong engine for sustainable economic growth.

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One of the key goals of the Department is to provide a suite of programs to help producers manage risk. This year, the Department will provide approximately $12 Million to support Production Insurance, AgriStability and AgriInvest programs.

In addition, the Department will invest $1.3 Million in innovation, research, product development, agri-food promotion and market development. The Department will focus on continuous improvement programs to assist producers in becoming more profitable by finding efficiencies in their operations.

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The Department will no longer provide the Hog Transportation Program. However, the Department will implement, through consultation with the hog sector, a Hog Farm Investment program, designed to develop proactive farm initiatives to assist each hog operation into the future. To help reduce the debt load of individual hog operations, the Department eliminated more than $900,000 of outstanding hog loans.

The current Growing Forward Agreement, which provides programs to help PEI's agriculture sector become more profitable and competitive, ends March 31, 2013. This year, the Department will consult with the agriculture sector on a new five-year Growing Forward Agreement to be implemented effective April 1, 2013. A special focus will be placed on the economic development initiatives designed to grow private sector jobs and increase exports in agriculture.

Access to capital is also vital to jobs and growth. In the Fall of 2011, I had the privilege to launch the Community Economic Development Business Program, to help Islanders invest in Islanders. Through this Program, an approved CEDB may obtain equity financing from Islanders, and the Province will provide a 35 per cent personal income tax credit on the investment. This initiative will help unlock the potential of Island entrepreneurs to finance expanded business opportunities and create jobs.

In addition, Finance PEI has been created to provide one-stop shopping for the financing needs of industry on Prince Edward Island. Finance PEI will continue to support traditional and strategic sectors and seek to work with commercial lenders to help private sector growth within the Province.

The low-interest loan program for fishers provides fishing-related debt consolidation with interest at 4 per cent for six years. The program was re-opened in January 2012 and applications will be received until June 2012. Since the program started in 2007, more than 250 fishers have participated in the program.

The Environment

Protection of our environment and our natural resource base continues to be a high priority of our Government. During our first mandate, significant gains were made in protecting and enhancing the quality of our air, water, and soil. In the coming months, our Government will seek the views of Islanders on a renewed Conservation Strategy and on appropriate land use policies.

" Protection of our environment and our natural resource base continues to be a high priority of our Government."

Further, in partnership with the City of Charlottetown and the Federal Government, we will take targeted action to enhance the water quality of the Charlottetown Harbour and protect the shellfishery of the Hillsborough River. Over the next three years, our Government will invest $6 Million as our share of an $18 Million project to separate the storm and sanitary sewer system in Charlottetown's Spring Park area – eliminating storm-related overflows of contaminated water into the Charlottetown Harbour and the related shellfishery closures.

Protecting Health Care

Madame Speaker, this Budget expresses and advances our Government's untiring commitment to build a stronger, more sustainable health care system for Islanders.

In keeping with this commitment, we pledge to increase health care funding by 4.1 per cent this year, and 3.5 per cent in each of the following two years – representing additional funding of more than $61 Million over that period.

These investments have brought major improvements to health care in Prince Edward Island, Madame Speaker. These improvements include:

- A primary health care system that will assure every Islander access to a health care team and physician;
- Increased access to home care;
- A significantly-enhanced and modernized drug formulary;
- A record number of doctors;
- Expanded and modernized emergency care;
- An integrated system of stroke care; and
- And a revitalized and expanded long-term care system with new manors and added beds.

This modernization of health care was absolutely vital. Now that the system is on an improved foundation, it is extremely important to protect these gains.

Therefore, we will continue to strategically invest in the transformation of our health care system over the coming years – to further ensure that Islanders get the right care from the right people in a timely way, close to home.

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To achieve this goal and ensure that our scarce resources are invested with maximum impact, our Government will undertake a review in the coming year of the impact of the system transformation measures taken to date.

This review will identify impacts thus far, take stock of progress achieved, and assess the lessons learned. These findings will be used to guide and direct the further millions of dollars that our Government will invest in building a health care system to serve Islanders well, long into the future.

During our past mandate, Government invested strongly in renewing our health care facilities – delivering better care to Islanders while providing economic stimulus during the recession and recovery. Enhanced facilities require expanded staffing, and this reality must be recognized if the health care system is to live within its annual funding increase of 3.5 per cent.

Therefore, Government will moderate the rate of implementation of a broad range of investments in better care – including the Ambulatory Care Department and a fifth operating room at the Queen Elizabeth Hospital.

Madame Speaker, we recognize that the number of seniors in our population will increase sharply in the coming years and that a growing number of Island seniors will need nursing care. While our investments in home care and seniors housing will enable many seniors to continue living independently, we are also committed to ensuring that higher levels of care are available to those who need it. Last Fall, we committed to add 75 long-term care beds over the term of the mandate.

Madame Speaker, our Government will fulfill this commitment.

As we move toward a more community-based health care system, Madame Speaker, drugs and medications play an important and growing role. During our first mandate, we increased funding for drug programs by $10 Million or 41 per cent – adding 154 drugs to the formulary, including high-cost drugs and diabetic strips. With continuing cost pressures and rising demand, action is needed to ensure that our drug programs are both accessible and sustainable.

"...we increased funding for drug programs by $10 Million or 41 per cent – adding 154 drugs to the formulary, including high-cost drugs and diabetic strips."

Madame Speaker, our Government is legislating the level of generic drug pricing for public drug programs, which will generate an estimated $2.5 Million in savings, without affecting access to those who need medications.

As well, to take account of the rapid growth in the number of Island seniors and to protect those with low and moderate incomes, our Government will introduce changes to the Drug Cost Assistance Program, to make it the payer of last resort rather than first resort.

Revenue Measures

Madame Speaker, Government has devoted a great deal of effort to ensuring that our realignment of expenditures and revenues will meet the needs of our Province.

East of Manitoba, every jurisdiction in Canada except Prince Edward Island has harmonized its sales tax with the Federal Goods and Services Tax.

Representatives of our most important economic sectors – agriculture, fisheries, tourism, manufacturers, as well as small and medium-sized businesses – have repeatedly pointed to the disadvantage they face in the absence of harmonization.

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In addition to helping the private sector to improve its competitive position, harmonized taxes have also proved to be a fair and equitable way for government to raise revenue.

This view is shared by some of Canada's most renowned experts. David Dodge, former Governor of the Bank of Canada and Federal Deputy Minister of Finance during the mid-1990s, recently said, "In my view, achieving balanced budgets through lower spending alone simply isn't possible; we need more revenue. The key is to do so in a way that has the least negative impact on incentives to work, to invest, and to increase productivity. What this means is higher consumption taxes with appropriate refunds to low income groups."

Given the proven experience in other jurisdictions, Government firmly believes that this new model will help the private sector contribute to achieving the goal of 75,000 jobs by 2016. This will be accomplished by removing obstacles to competitiveness and drags on productivity.

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That said, a solution has to be devised that achieves an appropriate balance. In developing revenue measures for this Budget, Government set three revenue policy objectives:

- to balance the Budget while protecting public services;
- to focus government policy to improve economic growth in the private sector; and
- to protect low and modest income families.

Madame Speaker, several options were considered. However, these revenue models were rejected on the basis of their regressive impact on Islanders with low and modest incomes – and the lack of incentive provided to the private sector.

Frankly speaking, Madame Speaker, a one per cent increase in sales tax would have been less controversial. However, this type of approach would disproportionately hurt Islanders with low and modest incomes – and accelerate the inherent weaknesses of an antiquated system of revenue generation.

Therefore, I am announcing our Government's intention to enter into negotiations with the Federal Government on sales tax harmonization with an effective implementation date of April 1, 2013.

Under a harmonized sales tax, the provincial rate will be reduced from 10 per cent to 9 per cent. Combined with the Federal rate, the harmonized rate will be 14 per cent compared to 15.5 per cent currently. At this level, the Island will have the second lowest sales tax rate in the Maritimes – instead of leading the country with the highest rate.

Madame Speaker, in addition to the reduced provincial rate the Government is committed to fairness in the application of this tax.

Therefore, the proposed model would apply the tax on the same base as the GST which, for example, does not include basic groceries and prescription drugs. Further, the Province will not tax:

- home heating oil;
- children's clothing and footwear and finally;
- an enhanced refundable tax credit will be created so that the impact of a new tax model will not affect Islanders with low and modest incomes.

In our view, Madame Speaker, these measures will help to mitigate the shift to a new tax model.

Further, today's announcement will level the playing field for Island businesses in the region, reduce red tape, result in increased investment in jobs and growth, and end the practice of applying the provincial sales tax on top of the GST.

Over the coming months, a detailed plan will be developed, with input from the private sector and the public to ensure smooth and orderly implementation, including adjustments to provincial and excise taxes to accommodate the harmonized tax, as well as transition rules concerning transactions that straddle the implementation date. A package of legislative changes will be tabled and debated during the Fall session of the Legislature.

Madame Speaker, many of the fees charged by Government have not been increased in over a decade, and often fall far short of the costs required to deliver those services. Over the past several months, our Government has carried out a comprehensive review of licenses, permits, fees and services including comparisons to the other Maritime Provinces. These fee and tax increases will be released in full later in this Session of the Legislative Assembly.

Based on this review, fees will be adjusted to levels comparable to the rest of the Region, where appropriate – generating $7.2 Million in additional revenue in 2012-2013. To ensure that future increases are consistent and gradual, our Government will introduce an omnibus bill to provide for automatic annual increase in these fees based on the consumer price index.

The following measures will take effect at midnight tonight:

- The environmental tax for tires with a rim size greater than 17 inches will be increased to the regional average of $11.25 per tire to better reflect the actual costs of disposal.

- The fee for provision of highway access to new property developments will be increased for the first time since 1996.

In addition, Government will take steps to increase fees under the *Highway Traffic Act*, *Off-Highway Vehicle Act* and the *Roads Act* to be comparable with other Maritime rates.

Madame Speaker, our goal of investing in selected priorities must be reflected in our revenue measures as well as our expenditures. This week is National Volunteer Week, and our volunteer firefighters provide a vital service to protect citizens and property in our communities. To mark this event, and in keeping with our election commitment, our Government will amend the *Income Tax Act* during this Session of the Legislative Assembly to provide a new $500 refundable income tax credit for volunteer firefighters with at least 200 hours of volunteer service a year. The cost to fulfill this commitment will be $500,000 in the current year.

"...our Government will amend the Income Tax Act during this Session of the Legislative Assembly to provide a new $500 refundable income tax credit for volunteer firefighters ..."

Madame Speaker, those measures will make an essential contribution to our Plan to return to fiscal balance in our Province. I now turn to an overview of that plan.

Three-Year Expenditure and Revenue Plan

Madame Speaker, the measures that I have set out represent a comprehensive plan to restore the fiscal health of the Province in a fair and effective manner. Over the next three years, we will return to a balanced budget by holding our expenditure growth below the level of growth in revenues. In summary, over that period our revenues will grow at an annual rate of 3.4 per cent, while our expenditures will be held to growth of 1.6 per cent.

"Over the next three years, we will return to a balanced budget by holding our expenditure growth below the level of growth in revenues."

In the current fiscal year, our revenues will increase by only 1.3 per cent, or $19.7 Million. At the same time, we face a structural deficit of over $78 Million from last year, and a range of new expenditure needs including employee benefit cost increases of $10.3 Million and health care cost pressures of $21.5 Million.

As I have described, significant and wide-ranging measures are being taken to hold our expenditure growth to 1.0 per cent, or $16 Million. To have taken even deeper reductions would have imposed severe setbacks on the progress that we have achieved together, and reduced our capacity to grow our economy. As a result, our deficit target for this fiscal year is set at $74.9 Million.

In Year Two of our Plan, 2013-2014, our revenues are expected to recover somewhat, with growth of $70 Million or 4.6 per cent. To strengthen our progress toward balance, we will continue to hold our growth in expenditures to $29.4 Million or 1.9 per cent – reducing our deficit target to $34.2 Million.

In the third and final year of our Plan, 2014-2015, further revenue growth of $67 Million or 4.2 per cent is forecast. Again, we will hold our expenditure growth to $29 Million or 1.8 per cent – attaining fiscal balance with a surplus of $3.6 Million.

Exhibit 2 - Three-Year Plan
$ millions

	2012 Forecast	2013 Budget	2014 Budget	2015 Budget
Revenue				
Provincial	874.4	907.3	967.8	1,003.7
Federal	616.0	602.8	612.4	643.5
	1,490.4	1,510.1	1,580.2	1,647.2
Expenditure				
Health PEI	521.2	542.7	562.7	582.6
School Boards	198.3	201.2	201.2	201.2
Post-Secondary	93.5	92.3	94.7	92.7
Community Services	98.8	93.1	93.1	93.1
Transportation	111.5	102.4	98.0	96.5
Interest	104.5	109.9	112.4	114.5
Other Departments	441.2	443.4	452.3	463.0
	1,569.0	1,585.0	1,614.4	1,643.6
(Deficit) Surplus	(78.6)	(74.9)	(34.2)	3.6

Our Plan to achieve this has required some difficult decisions – but they are essential if we are to place our Province's finances on a new and sustainable trajectory while sustaining services to Islanders and continuing to invest in core priorities. This Plan has sought to minimize the impact of these decisions on Islanders, and to spread the burden as fairly and compassionately as possible.

I ask for the support of Islanders as we move forward together to ensure that Prince Edward Island is a strong, sustainable, and vibrant society – ready to meet the challenges and take up the opportunities of the future.

"I ask for the support of Islanders as we move forward together to ensure that Prince Edward Island is a strong, sustainable, and vibrant society..."

Conclusion

Madame Speaker, more than three years of global recession have tested every jurisdiction financially.

Many places have been overwhelmed - and crises have occurred with wide-ranging reverberations.

Prince Edward Island was not immune to these effects. However, we have been fortunate.

Instead of massive economic dislocation, we have held our own – and in fact, many of the world's jurisdictions would look at our performance with envy.

Instead of receding, we made modest gains.

Therefore, instead of the painful choices that have confronted much of the world, we have the capacity to create – and deliver – a coherent and well-considered Plan for our Island's future.

This Plan must be balanced. It must take into account Government's role in our economic fabric – while pointing the way for a vigorous private sector.

A careful blend of revenue and expenditure measures will achieve that balance.

Looking forward, we are fully confident in the capacity of Islanders to thrive in a changing world.

The steps we are introducing today will strengthen our economic foundation – and help us to build a more secure future for a current generation of Islanders, and many more to come.

"The steps we are introducing today will strengthen our economic foundation – and help us to build a more secure future for a current generation of Islanders, and many more to come."